

Message Text

CONFIDENTIAL

PAGE 01 BEIRUT 06469 01 OF 04 280658Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
SIL-01 L-03 H-01 PA-01 PRS-01 /097 W
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TO SECSTATE WASHDC 6255
INFO USDOC WASHDC
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AMEMBASSY CAIRO
AMEMBASSY JIDDA
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C O N F I D E N T I A L SECTION 1 OF 4 BEIRUT 6469

E.O. 11652: GDS
TAGS: EGEN EFIN EAID LE
SUBJ: THE LEBANESE ECONOMY AT YEAR END: UNCERTAIN CLIMATE

1. INTRODUCTION AND SUMMARY: AS 1978 BEGINS, THE LEBANESE ECONOMY IS SHOWING DEFINITE SIGNS OF RECOVERY. DESPITE THE COUNTRY'S POLITICAL AND SECURITY PROBLEMS, THE COMMERCIAL SECTOR HAS RECOVERED VITALITY AND SOME INDUSTRIALISTS ARE REBUILDING THEIR FACTORIES. THE GOVERNMENT IS ENGAGED IN SELECTIVE RECONSTRUCTION PROJECTS AIMED AT RESTORING LEBANON'S COMMERCIAL INFRASTRUCTURE. ON THE OTHER HAND, MAJOR NEW PRIVATE INVESTMENT IS NONEXISTENT AND CANNOT BE EXPECTED UNTIL CONFIDENCE IN THE OVERALL SECURITY SITUATION HAS IMPROVED. MOREOVER, THE GOL WILL HAVE TO CONVINCE POTENTIAL DONORS THAT IS PREPARED TO INVEST ITS OWN CAPITAL AND THAT

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PAGE 02 BEIRUT 06469 01 OF 04 280658Z

IT MANAGES FUNDS EFFICIENTLY AND HONESTLY IF IT IS TO ATTRACT THE DEVELOPMENT CAPITAL IT IS SEEKING. END SUMMARY.

THE PRIVATE SECTOR

2. PRIVATE CAPITAL, MAINLY THAT OF SMALL ENTREPRENEURS, DESERVES CREDIT FOR THE REMARKABLE IMPROVEMENT SEEN IN

AND AROUND BEIRUT DURING 1977. FROM PUSHCARTS, TRUCK TAILGATES, AND PREMISES CLEARED BY THEIR OWN SHOVELS, SMALL RETAILERS OPENED A COMMERCIAL BRIDGEHEAD IN THE PLACE DES MARTYRS AND HAVE WIDENED IT ACROSS PART OF THE ONCE COMPLETELY VACANT DOWNTOWN. DESTRUCTION IN THE AREA REMAINS APPALLING, BUT PROGRESS SINCE JUNE HAS BEEN STEADY. COMMERCIAL GROWTH IN UNDAMAGED DISTRICTS OF THE CITY IS CONSIDERABLY MORE VIGOROUS, PARTICULARLY IN HAMRA, ASHRAFIYAH, DOURA, HAZMIYEH, FURNISH-SHUBBAK, AND SIN AL-FIL. A GROUNDSWELL REVIVAL OF RETAIL BUSINESS CONTINUES, BRINGING WITH IT THE RETURN OF NORMAL, IF NOT YET EXUBERANT, STREET LIFE.

3. FOLLOWING ON THE HEELS OF THE PETTY RETAILER HAS BEEN THE SMALL-TO-MEDIUM IMPORTER/WHOLESALE/FORWARDER. COMPETITION AT HIS LEVEL REMAINS NARROWLY-BASED, SO PROFITS THROUGH SHORT SUPPLY AND LEFTOVER WARTIME INFLATION ARE LOFTY. THERE IS ALSO DEMAND-PULL: TRADERS HAVE DISCOVERED A POTENT DEMAND IN THE GULF AND THE SYRIAN BLACK MARKET. SHIPS AWAITING ENTRY TO THE HARBOR NUMBERED FOUR-SEVEN PER NIGHT IN OCTOBER VERSUS ONE-TWO IN JULY. PORT ACTIVITY AVERAGED 64,000 CARGO TONS PER WEEK IN OCTOBER, UP FROM 45,000 TONS IN JULY AND 27,000 IN FEBRUARY. LEBANESE OF ALL ECONOMIC STRATA ARE BUYING. THE DAMASCUS HIGHWAY IS CONGESTED WITH TRUCKS BOUND FOR THE INTERIOR.

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PAGE 03 BEIRUT 06469 01 OF 04 280658Z

4. INHIBITING THE COMMERCIAL SECTOR ARE THE LACK OF CREDIT AND PHYSICAL SECURITY FOR INVENTORIES. SMALL BUSINESSES AND MANY WHOLESALERS OPERATE ON A CASH-ONLY BASIS. IMPORTERS AND LARGER WHOLESALERS WHO ENJOY GOOD STANDING WITH THEIR BANKS USE OVERDRAFT FACILITIES ESTABLISHED IN PRE-WAR DAYS, BUT IN LOW AMOUNTS AND FOR SHORT PERIODS, REFLECTING A CONSERVATIVE POLICY BASED ON AVERSION TO INVENTORY RISK.

5. THE INDUSTRIAL PICTURE IS STILL NOT IN FOCUS, BUT THE TREND IS POSITIVE. CEMENT, ALUMINUM EXTRUSION, AND FURNITURE PLANTS ARE SELLING ALL THEY CAN PRODUCE. THE HARD-HIT MKALLES DISTRICT IS BEING REPAIRED, WITH SOME PLANTS OPERATIONAL. ON FIXED CAPITAL LENDING, BANKS REMAIN CAUTIOUS NOT TO PRECEDE THE OWNER'S INVESTMENT OF PRIVATE FUNDS, BUT THEY ARE FOLLOWING SUCH INVESTMENT. SMALL INDUSTRIES ACCEPTED DISLOCATIONS TO OUTLYING SUBURBS, PRINCIPALLY EAST AND NORTH OF THE CITY, AND ARE BACK IN BUSINESS.

6. WHAT BANKERS WOULD LIKE AND LEBANON BADLY NEEDS IS

RETURN OF BIG CAPITAL, BUT COMMERCIAL MOMENTUM HAS NOT YET REACHED THE POINT OF ATTRACTING LARGE FACTORY OWNERS, HOTELIERS AND MULTINATIONALS WHO WATCH FROM VANTAGE POINTS IN EUROPE AND THE GULF. AT ITS CURRENT LEVEL, LEBANON'S COMMERCE IS STILL BELOW CRITICAL MASS. THESE INVESTORS CAN AFFORD TO WAIT OUT THE POLITICAL UNCERTAINTY WHILE PLACING THEIR MONEY ELSEWHERE, AND THEY ARE DOING JUST THAT.

7. TO CONTINUE GROWING, THE LEBANESE ECONOMY MUST OVERCOME A NUMBER OF OBSTACLES. SOME ARE PHYSICAL: LACK OF HANDLING EQUIPMENT AND STORAGE SPACE AT THE PORT, SHORTAGES OF MANUAL LABOR AND THE HEMORRHAGE OF TECHNICIANS AND MIDDLE MANAGERS TO MORE PROFITABLE CONFIDENTIAL

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PAGE 04 BEIRUT 06469 01 OF 04 280658Z

EMPLOYMENT IN THE GULF. OTHERS ARE MENTAL: LACK OF INVESTOR CONFIDENCE IN POLITICAL STABILITY, AND THE STILL UNCLOSED GAP IN THE ATTITUDE OF BANKERS BETWEEN SHORT-TERM (COMMERCIAL) AND LONG-TERM (FIXED CAPITAL) LENDING. THIS GAP FORMS THE PRESENT BOUNDARY TO CREDIT IN LEBANON, HENCE TO RECOVERY. ACCUMULATING COMMERCIAL MOMENTUM WILL EVENTUALLY CLOSE IT, BUT THAT WILL TAKE THREE TO SIX MORE MONTHS OF RELATIVE PEACE WITHIN LEBANON AND NO STIFLING DEVELOPMENT REGIONALLY.

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PAGE 01 BEIRUT 06469 02 OF 04 280736Z

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
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C O N F I D E N T I A L SECTION 2 OF 4 BEIRUT 6469

THE PUBLIC SECTOR

8. GOVERNMENT DECISIONS. POSITIVE GOL ACTIONS AIDING RECONSTRUCTION INCLUDE THE CREATION AND ACTIVITIES OF THE COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION, THE ESTABLISHMENT OF A NATIONAL HOUSING BANK, A NATIONAL INSTITUTE FOR GUARANTEEING INVESTMENTS, AND AN AGRICULTURAL DEVELOPMENT BANK, AN INCREASE OF INDUSTRIAL AND GOVERNMENT SALARIES BY 15-35 PERCENT, AND DECREES ESTABLISHING EMERGENCY CREDIT FACILITIES FOR BANKRUPT BUSINESSES AND FACTORIES. EXCEPT FOR WAGE HIKES, HOWEVER, THESE INITIATIVES HAVE BY INTENTION HAD A MUTED EFFECT. FOR EXAMPLE, THE "SAFETY NET" DECREE FOR BANKRUPT BUSINESSES REQUIRES APPLICANTS TO DISCLOSE GLOBAL BUSINESS AND PERSONAL ASSETS (E.G. SWITZERLAND NEST CONFIDENTIAL

CONFIDENTIAL

PAGE 02 BEIRUT 06469 02 OF 04 280736Z

EGG) AND AGREE TO SURRENDER MANAGEMENT TO STATE-APPOINTED OVERSEER IF GOL DEEMS NECESSARY. GIVEN LEBANESE ENTREPRENEURIAL CHARACTER, SUCH TERMS ARE VIRTUALLY UNACCEPTABLE, AS THE BANKERS WHO HELPED GOL DRAFT THE DECREE KNEW PERFECTLY WELL, SO THEIR EFFECT HAS BEEN TO CHANNEL PRIVATE BORROWERS INTO DIRECT NEGOTIATIONS RE LOAN WORK-OUTS WITH BANKS IN PREFERENCE TO SEEKING GOVERNMENT ASSISTANCE -- WHICH IS PRECISELY THE WAY THE GOL WANTED IT. AS A GENERALIZATION, THE BROAD-SWEEPING LAWS ARE WORDED IN BOLDFACE SO AS TO NEUTRALIZE COMPLAINTS THAT GOL HAS TURNED ITS BACK ON PRIVATE SECTOR, YET IN FINE PRINT, THEY PLACE GOL IN A POSITION WHERE IT WILL RARELY HAVE TO INTERVENE IN PRIVATE SECTOR RELATIONSHIPS. THIS POLICY IS BOTH TRADITIONAL IN LEBANON AND WISE IN PRESENT CIRCUMSTANCES.

9. THE GOVERNMENT MINISTRIES THEMSELVES REMAIN IN POST-WAR DISARRAY. EIGHT MINISTERS HANDLE 22 PORTFOLIOS. COORDINATION IS NOT THE LONG SUIT IN AN ADMINISTRATION WHOSE PRINCIPAL EARLY ACHIEVEMENT WAS TO BREAK UP ESTABLISHED POLITICAL LINKAGES AND INSTALL NEW LEADERSHIP OVER THE REARRANGED RESULTS. BECAUSE CERTAIN MINISTERS ARE HIGHLY CAPABLE MEN, SOME ACCOMPLISHMENTS HAVE EMERGED IN SPITE OF, RATHER THAN BECAUSE OF, THEIR

BUREAUCRACIES. BY SAME TOKEN, BECAUSE THESE MEN WERE AND REMAIN POWERFUL IN THE PRIVATE SECTOR (DOUMIT, RAPHAEL), THEIR INITIATIVES HAVE AT TIMES EERVED REGIONAL AND EVEN PERSONAL, RATHER THAN NATIONAL, ENDS. THE OVERALL PICTURE IS ONE OF ERRATIC FORWARD MOVEMENT, WITH PERSONAL AND NATIONAL GOALS CONFUSED, AND MINISTERIAL CONSENSUS PLAYING SOMETIMES THE MIDWIFE TO PROGRESS BUT OFTEN ITS ADVERSARY.

CONFIDENTIAL

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PAGE 03 BEIRUT 06469 02 OF 04 280736Z

COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION

10. GOL DECREE 5 DATED JANUARY 31, 1977 CREATED THE COUNCIL FOR DEVELOPMENT AND RECONSTRUCTION (CDR). LOCATED ADMINISTRATIVELY BENEATH THE PRESIDENT AND COEQUAL WITH THE CABINET MINISTRIES, THE CDR WAS GIVEN A VAGUELY SUPERMINISTERIAL MANDATE, TO COORDINATE AND GUIDE THE RECONSTRUCTION AND DEVELOPMENT DECISIONS OF THE MINISTRIES, THAT EXCEEDS ITS EFFECTIVE AUTHORITY. TWO OTHER INHERENT WEAKNESSES PLACE THE CDR AT A DISADVANTAGE VIS-A-VIS THE MINISTRIES: 1) THE CDR IS A NEW BODY WHEREAS THE MINISTRIES ARE ENTRENCHED, AND 2) THE CDR IS COMPOSED OF TECHNOCRATS LACKING A POLITICAL "BASEMENT," WHEREAS THE MINISTRIES CONSIST OF BUREAUCRATS WHOSE PERSONAL CONNECTIONS RUN DEEP INTO LEBANON'S GEO-CONFESSIONAL HINTERLAND AND THE BEIRUT BUSINESS COMMUNITY. THUS, BY MANDATE AND CHARACTER, THE CDR THREATENS THE AUTHORITY AND THE OLD-BOY PRACTICES OF THE MINISTRIES. BECAUSE OF POLITICAL WEAKNESS, HOWEVER, THE CDR'S PERFORMANCE THROUGHOUT 1977 WAS THAT OF A BODY SEEKING TO ASSURE ITS SURVIVAL THROUGH POLICIES OF CAUTION, RATHER THAN ONE ORGANIZING RECONSTRUCTION DECISIONS ACCORDING TO A BOLD INTERPRETATION OF ITS MANDATE.

11. IF THE CDR'S PERFORMANCE HAS BEEN A DISAPPOINTMENT, THE BRIGHT SIDE IS THAT IT NOT ONLY SURVIVES BUT HAS STRENGTHENED ITS POSITION BY ASSERTING CONTROL OVER FOREIGN RECONSTRUCTION LOANS. IN DOING SO IT HAS HAD THE HELP OF THE PRESIDENT, THE PRIME MINISTER, AND THE LENDERS THEMSELVES. U.S. AND UNDP ASSISTANCE, PLUS THAT FROM THE ARAB AND ABU DHABI FUNDS, HAVE BEEN COORDINATED THROUGH THE CDR. TWO LOANS, A \$150 MILLION EURODOLLAR SYNDICATION UNDER BANK OF AMERICA AND A \$6 MILLION EXIMBANK CFF BEING ARRANGED TO ALLOW THE CDR TO SUPERVISE THEIR USE, ARE THE BEGINNINGS OF A DISCRETIONARY FINANCIAL POWER BASE. IF FUNDS FROM THE EEC AND ADDITIONAL

CONFIDENTIAL

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PAGE 04 BEIRUT 06469 02 OF 04 280736Z

ARAB DONORS CAN BE ADDED TO THESE, THE CDR WILL ACQUIRE A KEY ELEMENT OF THE BUREAUCRATIC FORCE IT NEEDS TO PERFORM A NATIONAL PLANNING ROLE.

12. A THIRD WEAKNESS OF THE CDR HAS BEEN ITS SIZE, OR LACK THEREOF. THE COUNCIL NUMBERS FOUR FULL-TIME MEN AND A PART-TIME STAFF OF EIGHT. THIS SMALL GROUP IS UNABLE TO STAFF OUT ITS IDEAS WITH TECHNICAL WORK. THE USG, THROUGH A \$100,000 GRANT FOR PLANNING THE CDR'S INTERNAL ORGANIZATION, STAFFING, AND OPERATING CONCEPT, IS THE COUNCIL'S PRINCIPAL MENTOR. DESPITE PATIENT EFFORTS, CAPPED BY MINISTERIAL APPROVAL OF ITS ORGANIZATION PLAN ON DECEMBER 14, THE CDR AT THE CLOSE OF 1977 REMAINS A FOUR-MAN OFFICE UNABLE TO EXECUTE ITS MANDATE FULLY IN THE FACE OF PLANS AND TECHNICAL ARGUMENTS SET FORTH BY THE MINISTRIES.

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PAGE 01 BEIRUT 06469 03 OF 04 280818Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04
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AMEMBASSY PARIS
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C O N F I D E N T I A L SECTION 3 OF 4 BEIRUT 6469

13. PROJECTS. THE PRINCIPAL RECONSTRUCTION PROJECTS

PLANNED BY THE GOVERNMENT ARE: 1) BEIRUT PORT, 2) BEIRUT INTERNATIONAL AIRPORT, 3) TELECOMMUNICATIONS, 4) PUBLIC TRANSPORT, HIGHWAYS, 5) REBUILDING DOWNTOWN BEIRUT, AND 6) HOUSING. PROGRESS IN IMPLEMENTING THESE PROJECTS, NONE OF WHICH IS FULLY PLANNED AND PROGRAMMED, HAS BEEN SPOTTY.

A. BEIRUT PORT: \$5 MILLION IN PORT EQUIPMENT PROVIDED UNDER AN AID GRANT WILL HAVE ARRIVED BY FEBRUARY 1978. \$20.3 MILLION OF THE IBRD LOAN IS EARMARKED FOR REHABILITATION (WAREHOUSES AND EQUIPMENT). \$28 MILLION FROM THE ARAB FUND LOAN PLUS \$10.43 MILLION FROM ABU DHABI FUND WILL GO TOWARD CONSTRUCTION OF THE FOURTH SHIP BASIN.
CONFIDENTIAL

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PAGE 02 BEIRUT 06469 03 OF 04 280818Z

B. AIRPORT: A KUWAIT FUND LOAN OF \$28 MILLION HAS BEEN USED TO RESTORE AIR NAVIGATION SYSTEMS AND RESURFACE THE RUNWAYS. ACTIVITY BEGAN PROMPTLY AS THE TREASURY ALLOWED THE AIRPORT TO DRAW BALANCES IN ADVANCE OF ITS OWN RECEIPT OF THE LOAN. MIDDLE EAST AIRLINES HAS PAID FOR RESTORATION OF THE TERMINAL'S DEPARTURE LOUNGE. TERMINAL EXPANSION IS PLANNED BUT NOT YET FUNDED.

C. TELECOMMUNICATIONS: A \$14.5 MILLION IBRD LOAN IS EARMARKED FOR REHABILITATION OF EXISTING SERVICE, INCLUDING THE EARTH STATION. SOME WORK HAS BEGUN; MUCH MORE REMAINS TO BE CONTRACTED IN 1978.

D. PUBLIC TRANSPORT, HIGHWAYS: PUBLIC TRANSPORT ASSISTANCE HAS COME THROUGH DONATIONS IN KIND, CHIEFLY FROM FRANCE. HIGHWAY CONSTRUCTION DURING 1977 WAS CARRIED OUT USING \$27.6 MILLION REMAINING FROM A 1973 IBRD LOAN AND AN EQUAL AMOUNT OF GOL MONEY.

E. DOWNTOWN BEIRUT: LITTLE WAD DONE IN 1977 TOWARDS RECONSTRUCTING THE DEVASTATED CENTER OF BEIRUT. THE MUNICIPALITY AND THE MINISTER OF PUBLIC WORKS, WITH FRENCH ASSISTANCE, DEVELOPED AN AMBITIOUS CITY PLAN TO BE PURSUED OVER SEVEN-TEN YEARS AT A PROJECTED COST OF \$170 MILLION, SOURCES NOT DESIGNATED. TOTAL COST IS 2-3 BILLION LL, BUT MOST IS TO COME FROM PRIVATE SECTOR. GOL PLANS TO INVEST LL 500 MILLION OR \$170 MILLION.

F. HOUSING: U.S. \$20.20 MILLION IN GRANTS AND LOANS WAS PROVIDED BY AID IN 1977 AND \$17.5 MILLION PROGRAMMED FOR 1978. ABOUT \$17 MILLION IN SAUDI
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PAGE 03 BEIRUT 06469 03 OF 04 280818Z

ARABIAN AID IS EARMARKED FOR HOUSING REPAIRS AND THE GOL HAS ANNOUNCED ITS INTENTION TO DEVOTE LL 6-800 MILLION (\$200-\$260 MILLION) TO HOUSING BEGINNING IN 1978.

14. THERE IS ON THE WHOLE LITTLE ORDER IN THE GOL PLANNING PROCESS AND ONLY THE FIGMENT OF NATIONAL PLANNING. THE POLITICAL OBSTACLES TO IT ARE GREAT, PARTICULARLY REGARDING HOUSING, NOR HAS THE TALENT TO DO IT BEEN ORGANIZED. CLEARLY THE BIAS OF THE GOL IS TOWARD REFITTING THE COMMERCIAL INFRASTRUCTURE OF PRE-WAR LEBANON (PORT, AIRPORT, BUSINESS TELECOMMUNICATIONS, AND HIGHWAYS) FIRST, INDUSTRY SECOND, AND NON-COMMERCIAL IMPROVEMENTS (HOUSING) THIRD. EVEN WERE BIAS NOT A FACTOR, THIS IS A LOGICAL ORDER OF REDEVELOPMENT FOR TWO REASONS: (1) IT WAS NATURAL TO RECONSTITUTE THE REVENUE BASE OF LEBANON'S SERVICE-DOMINATED ECONOMY FIRST, AND (2) TO DO SO WAS PRACTICALLY SPEAKING THE EASIEST PATH FORWARD -- GIVEN TOTAL DISRUPTION, THE EASIEST PLANS TO IMPLEMENT WERE THOSE ALREADY IN EXISTENCE. PRE-WAR PLANNING FOR TELEPHONES, HIGHWAYS AND PORT IMPROVEMENTS WAS AVAILABLE, BUT NOT FOR HOUSING OR PUBLIC EDUCATION. PROGRESS DURING 1977 ACCORDINGLY PROMOTED BUSINESS MORE THAN SOCIAL REHABILITATION.

15. EXTERNAL FUNDING: ONE OF POST-WAR LEBANON'S MOST DECEPTIVE BUT POPULAR EXERCISES IS THE PUBLIC TABULATION OF DONOR ASSISTANCE. ANALYSTS CONFRONT THREE DIMENSIONS OF VAGUENESS: PROCEDURAL STATUS (STATEMENT OF INTENTION TO DONATE, PROMISE, SIGNED AGREEMENT, DONATION, EXPENDITURE), TERMS (GRANT, LOAN, AID IN KIND), AND DEFINITION (UNEXPENDED OLD MONEY REPROGRAMMED FOR NEW USES, GRANTS AGAINST OLD DEBTS RATHER THAN FOR NEW PURCHASES, "NEW" PROJECT FUNDING). THE TABLE BELOW REFLECTS AID DELIVERED AND PROMISED (NO AID IN KIND) AND ONE PROMISED GRANT (TAPLINE) NOT STRICTLY CLASSIFIED AS CONFIDENTIAL

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PAGE 04 BEIRUT 06469 03 OF 04 280818Z

RECONSTRUCTION AID:

DONOR/LENDER	DOLLAR AMOUNT (MILLIONS)	DESCRIPTION
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U.S.	\$100.93	FY 1976, 1977 AND 1978 USAID MULTIPURPOSE
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EEC	\$50.0	PROPOSED, PURPOSES TO BE DESIGNATED
KUWAIT FUND	\$28.0	BEIRUT AIRPORT, REHABILITATION
SAUDI ARABIA	\$120.0	REPAY GOL DEBTS TO TAPLINE
ARAB FUND FOR ECONOMIC AND SOCIAL DEVELOPMENT	\$38.5	PORT, ELECTRIC AND HOUSING REPAIR
ABU DHABI FUND	\$17.5	PORT, ELECTRIC GRID
WEST GERMANY	\$8.26	WATER SYSTEM (OLD MONEY, REPROGRAMMED)
IBRD	\$50.0	CGHWAYS, PORT, TELE- COMMUNICATIONS, WATER
IBRD	\$6.6	TECHNICAL SCHOOLS (OLD LOAN, REPROGRAMMED)

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PAGE 01 BEIRUT 06469 04 OF 04 280853Z
ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08
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C O N F I D E N T I A L SECTION 4 OF 4 BEIRUT 6469

MAJOR PROBLEMS

16. NO CHECKLIST OF THE CONSTRAINTS ON LEBANON'S ECONOMIC RECOVERY IS SUFFICIENT TO DESCRIBE WHAT IS AT BEST A KNOT OF MANY ROPES. IN ROUGH ORDER OF IMPORTANCE, NEVERTHELESS, THE MAIN PROBLEMS ARE THESE:

A. SECURITY. THE WAR IN LEBANON WAS SUPPRESSED WITHOUT A CONCLUSION, AND MOST LEBANESE BELIEVE IT WOULD BEGIN ANEW WITHIN DAYS OF ANY EVENT THAT REMOVED THE SUPPRESSING FORCE, THE SYRIAN DOMINATED ADF. THE ELEMENTS NECESSARY TO RENEW THE FIGHTING -- FIFTERS, WEAPONS, UNSETTLED VENDETTAS AND CONFESSIONAL ANIMOSITY -- REMAIN IN PLACE. IN THIS CLIMATE, ECONOMIC RECOVERY IS MORE DRAMATIC THAN WAS EXPECTED, EXCEPT FROM THOSE WHO
CONFIDENTIAL

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PAGE 02 BEIRUT 06469 04 OF 04 280853Z

MUST TRADE TO SURVIVE. LOGICALLY, RECOVERY HAS GROWN FROM THE BOTTOM UP IN THE PRIVATE SECTOR, AND WILL GROW NO FASTER THAN THE PACE AT WHICH THREATS OF RENEWED FIGHTING ABATE. BIG CAPITAL REMAINS IN SAFE HAVEN. EVEN THE COMMERCIAL TRADE IS SENSITIVE TO POLITICAL FLUX OUTSIDE LEBANON -- SADAT'S ANNOUNCEMENT OF HIS JERUSALEM VISIT CAUSED AN IMMEDIATE FLATTENING OF LETTER OF CREDIT BUSINESS IN BEIRUT BANKS.

B. ENCLAVISM: THE DE FACTO NEAR-PARTITION OF LEBANON HAS FAR-REACHING NEGATIVE EFFECTS ON THE ECONOMY. MUCH OF THE LABOR FORCE IS NO LONGER MOBILE ACROSS CONFESSIONAL LINES. BELLICOSE STATEMENTS, WITH THE MARONITES THE WORST OFFENDERS, ENCOURAGE THE DISPERSAL OF CHRISTIANS AND MUSLIMS INTO SEPARATE DISTRICTS. CHRISTIAN PRESSURE TO SECURE FOR THEMSELVES THE BENEFITS OF GOL SPENDING, OR TO SUPPLANT NATIONAL WITH REGIONAL INVESTMENT (THE HAMAT AIRFIELD, FOR EXAMPLE), DELAYS NATIONAL PLANNING DECISIONS. NEXT TO LEBANON AT WAR, THE PROSPECT OF LEBANON PARTITIONED INTO UNVIABLE CONFESSIONAL COMMUNITIES IS THE GREATEST DETERRENT TO REINVESTMENT.

C. DISORGANIZATION: THE GOL AS A WHOLE IS UNDERSTAFFED AND PROVISIONAL AS NOW STRUCTURED. IT IS NOT ORGANIZED TO REDEVELOP THE COUNTRY, BUT TO PREVENT POLITICAL COLLAPSE AND TO INTRODUCE EMERGENCY REFORMS THAT WILL OPEN THE PATH TO A MORE RESPONSIBLE GOVERNMENT IN FUTURE. MANY OF ITS DECISIONS ARE SOUND, BUT IMPLEMENTATION IS ERRATIC -- THE GOVERNMENT HAS PRACTICALLY NO ENFORCEMENT POWER, THE COURT SYSTEM IS

DORMANT, AND EXTRA-LEGAL POWER VESTED IN CONFESSIONAL
POLITICAL PARTIES EXCEEDS THE REGIME'S, I.E., THE
CONFIDENTIAL

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PAGE 03 BEIRUT 06469 04 OF 04 280853Z

CAPACITY TO OPPOSE NATIONAL POLICY FAR EXCEEDS THE
CAPACITY TO IMPLEMENT IT. ECONOMIC RECOVERY IS
PERFORCE INCOHERENT.

D. CORRUPTION: LEBANON REMAINS A FEUDAL POLITY,
WHERE PATRONAGE IS COMPETITIVE AND GUARANTEED BY
CONFESSIONAL APPORTIONMENT TO CERTAIN GOVERNMENT OFFICES.
VENALITY WAS NOT APPARENT IN THE SARKIS ADMINISTRATION
EARLY IN 1977, BUT SIGNS OF IT EMERGED DURING THE
SUMMER IN CONNECTION WITH THE RECONSTRUCTION EFFORT
(PUBLIC TRANSPORT AND PORT RECONSTRUCTION). THE EFFECT
OF GRAFT ON DONOR AID TO LEBANON REMAINS TO BE SEEN.
EXTORTION BY POLITICAL FACTIONS IS RIFE IN THE BUSINESS
COMMUNITY ON BOTH SIDES OF THE CONFESSIONAL LINE, BUT
PREDOMINANTLY ON THE MARONITE SIDE.

E. SYMBOLISM: MOST DIFFICULT TO QUANTIFY IS THE
ABSENCE OF SYMBOLS OF RECOVERY SILHOUETTED ON WHAT
LEBANESE CONSIDER TO BE THE ECONOMIC/POLITICAL HIGH
GROUND. LEBANESE WOULD TAKE AS LEADING INDICATORS THE
RETURN OF PAN AMERICAN, THE REBUILDING OF THREE MAJOR
DOWNTOWN HOTELS (ST. GEORGES, PHOENICIA, HOLIDAY INN),
WORK ON THE NEW AMERICAN EMBASSY AND THE AVAILABILITY
OF AN EXIMBANK PROGRAM (WHOSE RESUMPTION OF PROGRAMS
IS STILL NOT PUBLIC KNOWLEDGE). WHATEVER THE QUALITY
OF FOIBLE IN THIS PERCEPTION, IT CONTAINS A GERM OF
TRUTH: NO HEALTHY SOCIETY IS DEVOID OF CONSPICUOUS
INVESTMENTS.

17. TOGETHER, THESE IMPEDIMENTS TO RECOVERY MAKE UP
A FORMIDABLE BARRIER. NOT HELPING THE LEBANESE TO
OVERCOME IT IS THEIR PERCEPTION THAT A) THE
PALESTINIANS ARE THE ROOT CAUSE OF THE 1975-76 DISASTER
AND B) NO POST-WAR PROBLEM CAN BE ADDRESSED UNTIL THE
PALESTINIAN QUESTION IS SETTLED BY THEIR EXPULSION FROM
LEBANON (MARONITE VIEW) OR THEIR DEMILITARIZATION
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PAGE 04 BEIRUT 06469 04 OF 04 280853Z

WITHIN THE SOCIETY (A RARELY VOICED MUSLIM VIEW). IN
THE ABSENCE OF SUCH A SETTLEMENT, LEBANESE RECOVERY
PROCEEDS IN A MAKESHIFT MANNER, HOSTAGE TO THE INTERPLAY
OF SMALLER POLITICAL AND HUMAN DESIGNS.

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Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BEIRUT06469
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770482-1204
Format: TEL
From: BEIRUT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771214/aaaaakru.tel
Line Count: 603
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 11065efc-c188-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
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Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 23-Mar-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 123812
Secure: OPEN
Status: NATIVE
Subject: THE LEBANESE ECONOMY AT YEAR END: UNCERTAIN CLIMATE
TAGS: EGEN, EFIN, EAID, LE
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/11065efc-c188-dd11-92da-001cc4696bcc
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Margaret P. Grafeld
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